

#### Members

Rep. William Crawford, Chairman  
Rep. John Aguilera  
Rep. Lawrence Buell  
Sen. Lawrence Borst  
Sen. Lindel Hume



#### Advisors

Sandra Bickel

## COMMISSION ON STATE TAX AND FINANCING POLICY

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### MEETING MINUTES<sup>1</sup>

Meeting Date:	June 15, 2004
Meeting Time:	3:00 P.M.
Meeting Place:	Genesis Convention Center, Gary Lake Room
Meeting City:	Gary, Indiana
Meeting Number:	1

**Members Present:** Rep. William Crawford, Chairperson; Rep. John Aguilera; Rep. Lawrence Buell; Sandra Bickel.

**Members Absent:** Sen. Lindel Hume; Sen. Lawrence Borst.

**Representative William Crawford**, Chairman of the Commission, called the first meeting of the Commission on State Tax and Financing Policy to order at 3:00 p.m.

#### Preliminary matters

Representative Crawford then introduced the Members of the Commission and recognized **Mayor Scott King** of Gary to begin the meeting.

Mayor King welcomed the Commission to Gary. Mayor King then gave the Commission his thoughts about the property tax problems in Lake County along with a number of proposals to provide taxpayers relief and to strengthen local government finances. For the

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<sup>1</sup> Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

text of Mayor King's remarks, see Exhibit 1.

Representative Crawford recognized in turn Lake County legislators **Representative Earl L. Harris** of East Chicago, **Senator Frank Mrvan** of Hammond, and **Representative Charlie Brown** of Gary.

Representative Harris expressed his confidence that the property tax problems in Lake County will be solved. These problems have been developing for many years, he said, partly the result of the fact that the Lake County area has relied so heavily in the past on the manufacturing industry for its tax revenues. It will take some time to diversify the economic complexion of the area. Nevertheless, he was adamant that no one should lose his or her home after twenty or thirty years of investment.

Senator Mrvan explained that the residents of Lake County are in terrible economic circumstances because of the property taxes they are now being asked to pay. He likened the state of the local economy to a "small depression." And he described having attended a number of public meetings in Lake County on the property tax issue with 250 to 750 people, emphasizing the extent of agitation. He said that a crisis exists and the situation needs action.

Representative Brown drew attention to a perceived lack of fairness in the rate of taxation in Lake County. He cited for example a newspaper article comparing the assessed values and taxes on his own home with that of Representative Robert Kuzman of Merrillville. That article had disclosed that Representative Brown owed \$8,400 in property taxes on a home with an assessed value of \$175,000, while Representative Kuzman owed \$7,000 in taxes on a home with an assessed value of \$324,000. Representative Brown concluded by asking the Commission to make a commitment to relieve the distress of the people in Lake County.

Representative Crawford indicated that the House Ways and Means Committee had previously met a number of times specifically to address tax restructuring. He said that it is his commitment and the commitment of the Commission to consider options that will assure that the dream of home ownership does not become a nightmare.

Representative Crawford called on **George Angelone**, Attorney for the Commission, to read the charge of the Legislative Council to the Commission on State Tax and Financing Policy. Mr. Angelone did so, referring to his memo to the Commission of June 10, 2004 (Exhibit 2-2) and to Legislative Council Resolution 04-01 (Exhibit 2-3). Representative Crawford added that the Legislative Council has directed that interim study committees are to meet no more than three times (Exhibit 2-4) before the next session of the Legislature.

Mr. Angelone also offered Exhibit 2-0 (list of items included in Exhibit 2), Exhibit 2-1 (the revised meeting notice), Exhibit 2-7 (selected gaming and local income tax statutes dealing with property tax relief), and Exhibit 2-8 (a map of Lake County titled "Countywide Median Change in Taxes Charged by Neighborhood). Exhibits 2-5 and 2-6 are referred to below.

#### Review of funding issues associated with the Family and Children's Fund and the Children's Psychiatric Residential Treatment Services Fund

Mr. Angelone gave a short explanation of controlled funds. These funds are used for specific purposes and typically feature levy limits. See Exhibit 2-5 (selected statutes governing property tax levies for the Family and Children's Fund and the Children's Psychiatric Residential Treatment Services Fund).

**Stephen DeMougin**, Director of the Division of Family and Children of the Family and Social Services Administration, spoke about the changes to the way levy limits are calculated and the impact on county Division of Family and Children (DFC) offices. Senate Enrolled Act 1 of the 2004 legislative session brought those changes about. The text of Mr. DeMougin's remarks can be found at Exhibit 3.

**Bruce Hillman**, Director of the Lake County DFC Office, spoke next. His conclusion was that Senate Enrolled Act 1 will devastate local DFC offices. In Lake County, he has had to send out a letter to service providers warning that DFC will not be able make payments in a timely manner. In contrast, in the previous nine years, there was only one year in which an excess levy was made for the Family and Children's Fund and just two years when they were forced to borrow money.

Representative Crawford directed a question to Mr. DeMougin. He asked what happens in the case of state or court mandated services, in the absence of sufficient money in the Family and Children's Fund. Mr. DeMougin replied that, where a service is required, the Director of DFC creates a plan for services and submits that plan to the county council, which is required to approve the request for more money.

**Clara Anderson** from The IARCCA Institute for Excellence, Inc. (formerly known as the Indiana Association of Residential Child Care Agencies) then appeared with **Dee Gibson**, Executive Director of White's Residential and Family Services, to give an assessment of Senate Enrolled Act 1 from a private provider's standpoint. IARCCA represents 89 service providers. Ms. Anderson said that she herself has over thirty years of child welfare experiences. From her perspective, Senate Enrolled Act 1 is an example of unintended consequences. She emphasized that these children have become the responsibility of the State and what is at stake is that these children will not become productive without this intervention. Service must be both timely and appropriate to the circumstances. Lack of funds jeopardizes both of these imperatives. For a copy of Ms. Anderson's prepared statement, see Exhibit 4.

Mr. Gibson began by pointing out that there are some good things about the way these services are delivered in Indiana. For example, Indiana features local control of services. For another thing, providers are largely non-profit organizations. However, the fact that an organization is non-profit does not mean that it can go without payment for the services it renders. In a two-year period, he said, from March 2002 to March 2004, White's Residential and Family Services has seen its past due State receivables climb from approximately \$200,000 to approximately \$800,000. When things get to this point, he stressed, payrolls are jeopardized. Once a service provider refuses to render further services to stop the loss, it will be very difficult for the State to replace that provider. The long-term consequences are that the State of Indiana will have to build its own service facilities or send these kids to the Department of Correction.

Finishing this segment of the meeting, **David Bottorff** from the Association of Indiana Counties, Inc. told the Commission that relying on county councils to supply a deficiency in local DFC funds is an undesirable routine practice. When the county borrows money or grants an excess levy for the Family and Children Fund, the State is not required to pay the county property tax replacement credit or homestead credit, which results in a higher net property tax levy. Mr. Bottorff's prepared remarks are located in Exhibit 5, along with tables detailing the levy limits and requests for 2003 and 2004 for each Indiana county.

Review of the general assessment, including the Lake County reassessment

Mr. Angelone opened this segment of the meeting by briefing the Commission on selected legal topics concerning property assessment in Indiana. Mr. Angelone covered (a) material on the Indiana Constitutional debates related to Article 10, Section 1, (b) a review of the group of cases known as the St. John's case, and (c) a review of several recent Indiana statutes, including House Enrolled Act (HEA) 1902 (2001), HEA 1001 (2002(ss)), HEA 1858 (2003), and Senate Enrolled Act 1 (2004) and HEA 1001 (2004). Mr. Angelone's memorandum on the history and recent developments in Indiana property assessment is designated Exhibit 2-6.

Representative Crawford next recognized **Beth Henkel**, Commissioner, Department of Local Government Finance (DLGF). Commissioner Henkel offered her comments in conjunction with a slide presentation entitled "Lake County, Indiana 2002 Reassessment." She gave her presentation along with **DJ Johnson**, Cole Layer Trumble (CLT), the firm who did the Lake County reassessment, and **Doug Schrock**, Crowe Chizek (CC), the accounting firm hired to analyze the reassessment procedure. The presentation comprised five parts: Statewide Reassessment (presented by DLGF), Lake County Results (DLGF), Quality Review (CC), Reassessment Process (CLT), and Policy Options (DLGF). A black and white copy of the slide presentation is designated Exhibit 6. DLGF also provided a report, "Facts about the 2002 Lake County Reassessment," which is designated Exhibit 7.

#### Public testimony

**Jim Martin**, President of Miller Citizen's Corp., a local homeowner's association in the Miller section of Gary, focused his comments on the shift of the industrial tax burden in Lake County to residential property owners and small business owners. He challenged in particular the US Steel reassessment. He suggested as a possible remedy that legislators consider implementing a percentage cap on the extent to which a property owner's property tax can increase in a year, a mechanism that other states with market value assessments have used. Commission advisor Sandra Bickel asked whether Mr. Martin thought the assessed values matched the market values. Mr. Martin responded that the market value is not the problem; rather, the problem is with the rate and levy.

**Will Smith Jr.**, President of the Lake County Council, profiled Lake County expenses, levy increases, and allocations of gaming revenue for the Commission. He defended Lake County against charges that county government costs have risen dramatically by as much as ten percent. In addition, he insisted that the Lake County Council has done a good job of using casino money prudently. Councilman Smith's figures are presented in several pages of schedules and charts located at Exhibit 8.

**Jim Robinson**, District Director of the United Steelworkers, District 7, warned the Commission against laying heavier taxes on the steel industry, in whatever form, because the steel industry is fragile. In order to maintain those jobs, the steel industry has to have profitable operations in those mills. Mr. Robinson also expressed concern for retired steelworkers and asked the Commission to act on the pension crisis for the protection of retirees. He also urged the Commission to remove barriers to the regionalization of northwest Indiana.

**Jim Strayer**, Business Manager of the Northwest Indiana Construction & Building Trades Council, stressed that casino dollars should be going for infrastructure improvements. These types of expenditures serve to put more property on the property tax rolls. He also told the Commission that we cannot tax our way of the problems in Lake County. The solution is growth, not taxes. Mr. Strayer's remarks can be found at Exhibit 9.

**Alicia Lopez-Rodriguez**, resident of East Chicago, wanted to know from the Commission whether any studies were done prior to the reassessment on how the reassessment would impact taxpayers. Representative Crawford indicated that there was no data available. Continuing, she said that some people were experiencing fivefold increases in their property taxes and she wanted to know what the General Assembly was going to do about it. Representative Crawford said that it is impossible to predict legislative outcomes but assured Ms. Lopez-Rodriguez that these drastic changes were not anticipated.

**Jerry Pickford**, resident of the Miller section of Gary, said that his home has an assessed value of \$402,000 and that his property taxes increased over 700%, from \$3,100 to \$24,500. He said that he will have to come up with \$48,000 this year. This money will have to come out of his savings. Mr. Pickford acknowledged that help could come from applying gaming revenues (\$500) and a possible US Steel settlement (20% reduction) to his tax bill, but that these adjustments are nowhere close to providing effective relief. What is needed is a property tax rate increase cap. Mr. Pickford offered that he could probably handle an increase limited to 2 1/2%, but that cap should be retroactive to his 2002 taxes.

**William Holmes**, retired steel worker, began by saying that he felt like Lake County was the stepchild of Indiana. Then he emphasized that assessment and market value are not our enemy. Our enemy is the fact that the word "fair" is missing from those terms—as in fair assessment and fair market value. The way he feels, he said, is that it's better not to own a home. A senior is in a difficult position, Mr. Holmes pointed out. He insisted that government has to work more efficiently.

**Douglas Grimes**, a lawyer from Gary, voiced his concern about what he characterized as the massive tax shift from industry to the homeowner. One of the most egregious results of this shift are the examples of retirees who have a limited ability to respond to significant increases in their expenditures. If he or she cannot pay his or her tax bill, he stressed, a retiree faces the prospect of losing his home, his equity, and his credit rating. Mr. Grimes urged that something be done now. Representative Crawford responded by volunteering to send a copy of the various proposals that were introduced in the last session and, further, he urged everyone to vote for the constitutional amendment that would allow the General Assembly to classify property.

**Rosa M. Amaro**, citizen of East Chicago, questioned the efficiency with which the reassessment was done. Although she did not have a problem with the assessment in principle, she indicated that she did not receive a visit from an assessment field worker, nor did she receive a card in the mail. Instead she had to request a card, and when it finally arrived, it had errors on it. Apparently, it is now too late in the process for her to protest the assessment based on the incorrect information.

**Paul Jackura**, citizen of East Chicago and a retired child welfare specialist with the State of Illinois, said that he has \$5,000 in taxes due this year and he simply can't pay it. Mr. Jackura thought that tax relief to the "Big Four" Lake County employers (British Petroleum's Whiting refinery, U.S. Steel Corporation's Gary Works plant, Ispat Inland Inc., and International Steel Group) should be spread out over a larger region than Lake County. He also pointed out that welfare funding in the State of Illinois is state-based, whereas in Indiana it is county-based. And he urged the State to commit money for the Gary Airport and for the South Shore Line rail passenger service.

**Mike Pendergast**, Manager of Property Tax for US Steel Corporation, testified on behalf

of his employer. Mr. Pendergast made several points. (1) House Bill 1858 had no effect on current property tax bills. Under that statute, US Steel anticipates a 17% increase in assessed value beginning with assessment year 2003 pay 2004, which will give residential property owners some relief. (2) He argued that US Steel's current assessed value of \$114 million (2002) is not excessive for the condition of the business, and, it may be too high. (3) Referring to a chart Mr. Pendergast provided, he showed that the Gary Works facility pays far more in property taxes than US Steel's other major plants. (4) The problems with the property tax are that the tax rates are exorbitant. He pointed out that Lake County's aggregate property tax rate is at 9.8% of assessed value, whereas the average in the rest of Indiana is approximately 2.5% of assessed value. The chart referred to and a summary of Mr. Pendergast's testimony are designated Exhibit 10.

**Jim Bartos**, Gary taxpayer, explained that he has a 900 square foot home in Miller and his taxes are going up 400% to a total of \$400 per month. He added that he is a teacher working two jobs to hang on. It would be one thing, Mr. Bartos said, if the burden was eased into over time. Mr. Bartos asked the Commission why the Governor could not call a special session. Representative Crawford replied that the Governor could, but the Chairman doubted it would do much good, given the constitutional constraints. Turning to alternatives, Mr. Bartos expressed his feeling that neither a local income tax nor any sort of payment plan would help very much.

**Joe Hero**, resident of St. John and St. John's Republican Chairman, stated that in Lake County taxpayers have to pay four kinds of tax: property tax, sales tax, income tax, and, unlike other counties in Indiana, a so-called "public corruption" tax. The "public corruption" tax took the form, Mr. Hero alleged, of public contracts weighted down with kickbacks or "juice." He drew attention to East Chicago with a public payroll of 2,000 people. Mr. Hero implored the Commission and the General Assembly to break the lock of public corruption in Lake County. Mr. Hero also insisted that HEA 1902 (2001) and HEA 1858 (2003) were both unconstitutional. He concluded by differing with Representative Crawford on the question of whether this was an appropriate time for the Governor to call a special session. This is precisely the time to call a special session, he said, when there's an election coming up and the voters have their greatest leverage.

**Leonard Tomaszewski**, member of the Steelworkers Organization of Active Retirees (SOAR), said it was ludicrous to hire an outside contractor to do the Lake County reassessment and demanded to know why that was done. He scoffed at the idea that casino money would be used to reduce taxes. Government employees will find a way to raise taxes, he declared. The solution is to consolidate, amalgamate, and merge all these cities and towns in Lake County. Government is too big, it spends too much, and doesn't do a thing, he accused. The result is so many boarded up houses. Mr. Tomaszewski said that it's time the County started listening to the people.

### Adjournment

Representative Crawford recognized **Senator Earline Rogers** of Gary. Senator Rogers thanked the Commission for coming to Gary. She indicated that she represents Miller and she is putting her faith in the General Assembly to solve this problem. She urged the Commission to consider implementing a 3% cap on property tax rate increases, supplemented with gaming tax revenues.

Representative Crawford then recognized **Representative Vernon Smith** of Gary. Representative Smith stressed that he is concerned with every citizen who is suffering. One of the problems, though, he believes, is educating the public about the process. Officials are being blamed for some things that don't even take effect until 2004. Nevertheless, he concluded, we must not try to dismiss the impact of what happened.

The meeting was adjourned at 7:30 p.m.